



0000117959

ORIGINAL

MEMORANDUM

TO: Docket Control

FROM: Steven M. Olea
Director
Utilities Division

DATE: September 3, 2010

RE: STAFF REPORT FOR MIRABELL WATER COMPANY, INC.'S APPLICATIONS FOR AN EMERGENCY RATE INCREASE AND A FINANCING APPROVAL (DOCKET NOS. W-02368A-10-0286 & W-02368A-10-0280)

Attached is the Staff Report for Mirabell Water Company, Inc.'s applications for an emergency rate increase and financing approval. Staff recommends approval of the emergency rate request and conditional approval of the financing request.

A Procedural Order has set a hearing date on this case of September 16, 2010. Any comments or exceptions to the Staff Report may be filed with Docket Control no later than 4:00 p.m., September 13, 2010.

SMO:GWB:red

Originator: Gerald Becker

Attachment: Original and fifteen copies

Arizona Corporation Commission
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Service List for: Mirabell Water Company Inc.
Docket Nos. W-02368A-10-0286 & W-02368A-10-0280

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**STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

MIRABELL WATER COMPANY, INC.

DOCKET NOS. W-02368A-10-0286 & W-02368A-10-0280

**APPLICATIONS FOR AN
EMERGENCY RATE INCREASE**

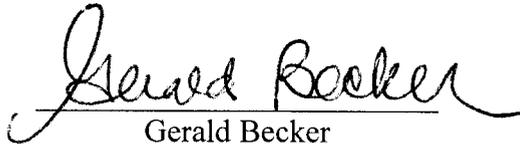
AND

FINANCING APPROVAL

SEPTEMBER 3, 2010

STAFF ACKNOWLEDGMENT

The Staff Report for the Mirabell Water Company, Inc. ("Company") applications for an emergency rate increase and financing approval, Docket Nos. W-02368A-10-0286 & W-02368A-10-0280, was the responsibility of the Staff members listed below. Gerald Becker was responsible for the review and analysis of the Company's applications. Dorothy Hains was responsible for the engineering and technical analysis. Trish Meeter was responsible for reviewing the Commission's records on the Company.



Gerald Becker
Public Utilities Analyst V



Dorothy Hains
Utilities Engineer



Trish Meeter
Public Utilities Consumer Analyst

**EXECUTIVE SUMMARY
MIRABELL WATER COMPANY
DOCKET NOS. W-02368A-10-0286 & W-02368A-10-0280**

On July 9, 2010, Mirabell Water Company, Inc. ("Mirabell" or "Company") filed an application for a financing approval with the Arizona Corporation Commission ("Commission"). On July 13, 2010, Mirabell filed an application for an emergency rate increase to support the financing approval requested on July 9, 2010. Mirabell is a Class E water utility that provides water service to approximately 57 metered customers in an area of Pima County, Arizona, approximately 25 miles southwest of Tucson. The current rates were authorized in Decision No. 68233, dated October 25, 2005.

Staff notes that the Company was administratively dissolved by the Corporations Division of the Commission on June 19, 2009, for failure to file its "2009 Annual Report"¹, which was due on January 10, 2009. The Company has also failed to file its 2010 report with the Corporations Division. The Company has filed its 2009 annual report with the Utilities Division of the Commission since the filing of the application. However, the Company still has not filed its 2008 annual report.

Based on the results of Staff's review, Staff concludes that Mirabell's financial condition satisfies the Attorney General's criterion number one discussed in the "Conditions Necessary for Emergency Rate Relief" section of this Report. The Company's current rates do not provide sufficient revenue to pay for needed system repairs and there is no reasonable expectation that it could begin to do so at existing rates. Implementation of emergency rates may prevent further deterioration of the Company's poor financial condition.

Water Infrastructure Finance Authority ("WIFA") Loan – The purpose of the financing is to provide funds for amounts owed for capital improvements that have already been performed on the Company's sole well. Staff examined the construction costs for the project and found them to be reasonable and appropriate as discussed in the attached Engineering Memorandum. Staff recommends approval of the financing application with revisions as discussed below.

As proposed by the Company, the \$11,000 loan is a 5-year amortizing loan at a 3.0 percent interest rate. The payments are estimated to be \$198 per month, or \$2,376 annually. Based upon review of the emergency rate application and the Company's 2009 tax return, Staff determined that the Company lacks sufficient earnings and operating cash flow to meet its proposed long-term debt obligation. Therefore, an emergency surcharge will be needed to repay the loan.

Staff recommends:

1. That the Commission authorize the Company to obtain a five-year amortizing loan in an amount not to exceed \$10,243 and at an interest rate not to exceed the prevailing WIFA rate at the time the loan is executed (currently estimated at 2.25

¹ The Corporations Division requires its reports at the beginning of the calendar year to which they are associated.

percent, less the Company's 20 percent WIFA subsidy) to finance capital improvements discussed herein.

2. Approval of a surcharge mechanism that may result in a surcharge of \$2.53 per month for customers with a ¾-inch meter.
3. The actual amount of the WIFA loan surcharge be calculated based upon the actual amount of the WIFA loan and actual number of customers at the time of the loan closing, subject to adjustment needed to result in a DSC ratio of 1.25.
4. The surcharge be implemented only after the Company closes on the loan.
5. Approval of Mirabell's request for authorization to incur long-term debt with the understanding that the Commission will also consider a WIFA loan surcharge mechanism to enable the Company to meet its principal and interest obligation on the proposed WIFA loan.
6. The Company file with the Commission a WIFA loan surcharge tariff application that would enable the Company to meet its principal and interest obligations on the proposed WIFA loan.
7. The Company follow the same methodology presented herein in the financing section of this report, to calculate the additional revenue needed to comply with the terms of the WIFA loan using actual loan amounts, and use the result to develop its surcharge tariff application. The increase in revenue calculation should be included in the surcharge tariff application.
8. The Company make a WIFA loan surcharge filing within 60 days of the loan closing.
9. Approval of the loan and surcharge be rescinded if the Company has not drawn funds from the loan within one year of the date of the Decision resulting from this proceeding.
10. The Company file a full permanent rate case no later than April 30, 2011, using a calendar year 2010 test year. In the event that the Company fails to file a permanent rate case by April 30, 2011, then any emergency surcharge approved in this proceeding shall terminate immediately.
11. The Company file, with the Corporations Division of the Commission, its annual reports for 2009 and 2010² within 60 days of this decision. In the event that the Company fails to file these reports within 60 days of a decision in this matter, then any emergency surcharge approved in this proceeding shall terminate immediately.

² The Corporations Division requires its reports at the beginning of the calendar year to which they are associated.

12. The Company obtain its "Certificate of Good Standing" from the Corporations Division and docket it with Docket Control within 90 days of a decision in this matter. If the Company fails to comply, then any emergency surcharge approved in this proceeding shall terminate immediately.
13. The Company file, with the Utilities Division of the Commission, its annual report for 2008. In the event that the Company fails to file this report within 60 days of a decision in this matter, then any emergency surcharge approved in this proceeding shall terminate immediately.
14. That the Company be subjected to a fine of \$5,000 in the event that it fails to comply with any requirements resulting from this proceeding. In addition, if the Company fails to comply with any requirements, Staff shall be authorized to appoint an interim manager to operate this Company and the Company shall be ordered to cooperate with the interim manager.
15. The interim rates be subject to refund pending the decision resulting from the permanent rate increase case required to be filed in this proceeding.
16. The Company be required to post a bond or irrevocable sight draft letter of credit in the amount of \$1,990³ to ensure that there is sufficient money available to refund customers if the Commission determines in the permanent rate case that the emergency surcharge was inappropriate. However, should the Commission choose a minimal bond, Staff recommends an additional option of posting a cashiers check for \$10.00 with the Commission. This option is recommended as small companies may be unable to obtain a bond or sight draft letter of credit for small amounts.
17. The Company file with Docket Control, within 30 days of the decision, a revised rate schedule reflecting the emergency rate increase, as a compliance item in this docket.
18. The Company notify its customers of the revised rate, and its effective date, in a form acceptable to Staff, by means of an insertion in the Company's next regularly-scheduled billing.

³ Equal to one year of Staff recommended surcharge.

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SCHEDULES

FINANCIAL ANALYSIS	SCHEDULE GWB-1
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INTRODUCTION

On July 9, 2010, Mirabell Water Company, Inc. (“Mirabell” or “Company”) filed an application for financing approval with the Arizona Corporation Commission (“Commission”). On July 13, 2010, Mirabell filed an application for an emergency rate increase to support the financing approval requested on July 9, 2010. At the Procedural Conference held on August 10, 2010, the Company was ordered to amend its application to include a draft of the notice to be sent to its customers. A second Procedural Conference was held on August 18, 2010. A Procedural Order was issued on August 20, 2010, setting filing deadlines and hearing dates. The Procedural Order of August 20, 2010, also ordered the Company to file a resolution of the Company authorizing its President, Morton Freedman, to represent it at hearing and ordering the Company to mail a notice to each of its customers and publish a public notice at least once.

BACKGROUND

Mirabell is a Class E water utility that provides water service to approximately 57 metered customers in an area of Pima County, Arizona, approximately 25 miles southwest of Tucson. The current rates were authorized in Decision No. 68233, dated October 25, 2005.

CONSUMER SERVICES

Staff reviewed the Commission’s records for the period of January 1, 2007, through August 6, 2010. Staff found ten complaints of which one remains open pending investigation. No opinions were reported. A search of the Consumer Services database reveals the timing and type of complaints as follows:

2007 – 3 Complaints, 2 quality of service (outage), 1 service (restrictions)

2008 – 3 Complaints, 1 quality of service (outage), 1 service (restrictions), 1
billing

2009 – 1 Complaint, quality of service (outage)

2010 – 3 Complaints, 1 quality of service (outage), 1 service (not working), 1
billing

PUBLIC NOTICE

As of the date of this Report, the Company has not filed its certification of public notice or mailing.

COMPLIANCE

A check of the Company's compliance status indicates that it is out of compliance for failure to file its 2008 Annual Report with the Utilities Division of the Commission. Further, the Company is not in good standing with the Corporations Division of the Commission and was administratively dissolved on June 19, 2009 for failure to file its 2009 Annual Report⁴ with the Corporations Division. The Company has also failed to file its 2010 annual report with the Corporations Division which was due on January 10, 2010.

ENGINEERING ANALYSIS

Staff also reviewed the financing application and concluded that the system improvements are appropriate but the Company supported only \$10,243 of the requested \$11,000 WIFA loan. No "used and useful" determination of the proposed improvement plant items was made and no particular treatment should be inferred for rate-making or rate-base purposes in the future. A complete discussion of Staff's technical findings and recommendations and a complete description of the water system are provided in the attached Engineering Memorandum.

ATTORNEY GENERAL'S CONDITIONS NECESSARY FOR EMERGENCY RATE RELIEF

General conditions necessary for interim emergency rates⁵ include:

1. A sudden change that causes hardship to a company.
2. A company is insolvent.
3. A company's ability to maintain service (pending a formal rate determination) is in serious doubt.

SUMMARY OF COMPANY'S JUSTIFICATION FOR EMERGENCY RATE RELIEF

According to the Company's application, during June 2009, the Company's sole well stopped working and caused stoppage of water service to customers.

Mirabell requests a loan in the amount of \$11,000 for two purposes. First, and according to the Company's president, he personally advanced \$3,500 of the \$11,000 to the Company and he wishes to recover those monies. The remainder is to pay for the amount still due for the

⁴ This report was due on January 10, 2009, since the Corporations Division requires its reports at the beginning of the calendar to which are associated.

⁵ According to Attorney General Opinion No. 71-17, interim or emergency rates are proper when either all or any of the following conditions occur: when sudden change brings hardship to a Company; when the Company is insolvent; or when the condition of the Company is such that its ability to maintain service pending a formal rate determination is in serious doubt. Those criteria have been affirmed in *Scates v. Arizona Corporation Commission*, 118 Ariz. 531 (CT. App. 1978) and in *Residential Utility Consumer Office v. Arizona Corporation Commission*, 199 Ariz. 588 (2001) ("Rio Verde").

repairs. Mirabell proposes to recover the \$11,000 in costs incurred for emergency well repair through a WIFA loan. In effect, Mirabell requests authorization to incur \$11,000 in long-term debt to pay for the repairs already effected. The Company is requesting a \$3.01 per month surcharge to cover the monthly loan payment of \$198 per month.

STAFF'S ANALYSIS AND CONCLUSION

Staff reviewed the emergency rate application and the Company's 2009 tax return, and discussed the application with the Company president, Morton Freedman. The Company's annual operating income as of December 31, 2009, was approximately \$1,574 and depreciation expense was \$1,532, for a total annual cash flow of \$3,106. This amount of annual cash flow is sufficient to cover the annual debt service on the WIFA amounts as proposed by the Company as well as the debt service on the WIFA amount recommended by Staff \$2,376 and \$2,209, respectively. However, the Company's present operating income is not adequate for the Company to meet a Debt Service Coverage ("DSC") requirement of 1.25, and a surcharge is necessary.

The Company's proposed increase of \$2,376 would produce total operating revenues of \$38,627 for an operating income of \$3,950 and DSC ratio of 1.35. The Company's requested rates would increase the typical 3/4-inch meter residential bill with an estimated average usage of 9,269 gallons from \$40.86 to \$43.87 for an increase of \$3.01, or 7.4 percent.

Once Staff determined the annual loan payment of \$2,209, it evaluated whether the annual loan payment amount needed to be adjusted, upward or downward, in order for the Company to have a DSC ratio of 1.25. In this case, Staff determined that the Company would need an annual surcharge of \$1,990 instead of the \$2,209 shown above as the annual loan payment, for a reduction of \$219 to calculate the surcharge.

Staff's recommended increase of \$1,990 would produce total operating revenues of \$38,241 for an operating income of \$3,564 and DSC ratio of 1.25. Staff recommended rates would increase the typical 3/4-inch meter residential bill with an estimated average usage of 9,269 gallons from \$40.86 to \$43.39 for an increase of \$2.53, or 6.2 percent. Staff's methodology to calculate the surcharge is discussed further in the section "Instructions To Calculate the Surcharge on the Loan", below.

Based on the results of Staff's review, Staff concludes that Mirabell's condition satisfies criterion number one discussed in the "Conditions Necessary For Emergency Rate Relief" section of this Report. The Company's current rates do not provide sufficient revenue to support a WIFA loan that is needed to pay for system repairs and there is no reasonable expectation that it could begin to do so at existing rates. Implementation of emergency rates may prevent further deterioration of the Company's poor financial condition.

Bond – Staff recommends that the Company be required to post a bond or irrevocable sight draft letter of credit in the amount of \$1,990⁶ to ensure that there is sufficient money available to refund customers if the Commission determines in the permanent rate case that the emergency surcharge was not needed or too large. However, should the Commission choose a minimal bond, Staff recommends an additional option of posting a cashiers check in the amount of \$10.00 with the Commission. This option is recommended as small companies may be unable to obtain a bond or sight draft letter of credit for small amounts.

INTERIM OPERATOR

At the procedural conference on August 20, 2010, the President of the Company, Mr. Morton Freedman, indicated a reluctance to continue operating the Company. Judge Martin directed Staff to discuss and consider the possibility of the Commission appointing an interim operator.⁷ Below is an excerpt from the transcript of the Procedural Conference held on August 20, 2010:

MR. FREEDMAN: You do what you have to do, and I will just - - I will deal with it as it comes along. I must tell you, I will be 81 years old in October, and it's getting to a point where it's much beyond my dealing with all of this. And I recommend very strongly that the Arizona Corporation Commission do what it can do to find someone to take over this company, because - -

ALJ MARTIN: Why is that the Commission's responsibility, Mr. Freedman?

MR. FREEDMAN: It's not, but I will just close it down; that's all. I will just notify the customers that I simply can't continue to operate and lose money and take money out of my pocket to try to pay the bills in order to provide water and continue to lose money and can't even cover an emergency situation in less than three months. I mean, it's - - I can't do it. I just can't live that way, and I can't live with these kinds of problems. And you are right; it's not the Arizona Corporation Commission's responsibility. But if all of a sudden you get calls from 60 people saying they want to be served water, and I simply can't do it.⁸

Based on the above, Staff concludes that the Company needs an incentive to act more responsibly and to devise solutions that are more constructive and effective to resolve its issues. Staff has made several recommendations that would help the Company and its ratepayers, i.e. file a full permanent rate case no later than April 30, 2011, using the 2010 calendar year as the test year. Staff would recommend the appointment of an interim operator only if the Company fails to comply with the requirements resulting from this proceeding. Staff further recommends

⁶ Bond amount equals one year of surcharge.

⁷ Transcript of Procedural Conference of August 20, 2010, page 17, lines 8-9.

⁸ Transcript of Procedural Conference of August 20, 2010, page 16, lines 10-25 and page 17, lines 1-4.

a fine of \$5,000 in the event the Company fails to meet any of the compliance deadlines resulting from this proceeding.

FINANCING APPLICATION AND SURCHARGE MECHANISM

Purpose and Terms of the Proposed Financing and Surcharge Mechanism

The purpose of the financing is to provide funds for emergency repairs that were needed when the Company's sole well became unable to produce adequate water. Staff examined the invoices supporting the work performed and found them to be reasonable and appropriate, as discussed in the attached Engineering Memorandum, but also found that the supporting documentation supports only \$10,243 of the \$11,000 proposed WIFA loan.

As proposed by the Company, the \$11,000 WIFA loan is a five-year amortizing loan at a 3.0 percent interest rate. The payments are estimated to be \$198 per month, or \$2,376 annually. Staff reduced the proposed WIFA loan amount by \$757 from \$11,000 to \$10,243 to reflect the amount of expenditures actually incurred by the Company based on the supporting documentation that it provided. Staff's adjustment to the principal results in a reduction to the estimated debt service from \$198 per month or \$2,376 annually to \$184 per month or \$2,209 annually.

Based upon Staff's review of the emergency rate application and the Company's 2009 tax return, the Company lacks sufficient earnings and operating cash flow to meet its proposed long-term debt obligation. Therefore, a surcharge that provides the necessary funds for the debt service on the WIFA loan is appropriate. Because the final details of the WIFA loan will not be known until after the Company has closed on the loan, Staff is recommending a surcharge mechanism.

The surcharge mechanism establishes the methodology for calculating the surcharge amount to be applied to the rates established in this emergency rate application. To collect the surcharge, the Company would submit a surcharge application to the Commission under this Docket, using the methodology Staff has defined in this Report, once Mirabell has closed on the loan.

CALCULATION OF SURCHARGE

Following is the methodology that Staff recommends to calculate the surcharge needed to provide funds for the debt service on the loan. Also provided, as an illustration, is a sample calculation applying Staff's proposed methodology to a 5-year loan at 3.0 percent using the Staff-recommended loan amount of \$10,243.

Staff recommends the following steps to calculate the surcharge once the Company has closed on the loan.

INSTRUCTIONS TO CALCULATE THE SURCHARGE ON THE LOAN

Example - For Illustrative Purposes Only

Loan amount: \$10,243
Term: 5 years
Stated Annual Interest Rate: 3.00%

Instruction for Step 1

Step 1. Find the Annual Payment on the Loan

Refer to Table A, the Conversion Factor Table. Reading the table from top to bottom, find the interest rate in Column A that is equal to the stated annual interest rate of the loan. Reading across the table, find the Annual Payment Conversion Factor in Column B that corresponds with the loan interest rate (in the event that the loan interest rate is different from the interest rates in Table A, use the next higher interest rate that can be found in Table A). Multiply that annual payment conversion factor by the total amount of the loan to calculate the annual debt service on the loan.

Result

0.21562	Annual Payment Conversion Factor (Table A, Line 5, Column B)
X \$10,243	Total loan amount
\$ 2,209	Annual loan payment

Once the annual loan payment is determined, one must evaluate whether the annual loan payment amount needs to be adjusted, upward or downward, in order for the Company to have a DSC ratio of 1.25. In this case, Staff determined that the Company would need an annual surcharge of \$1,990 instead of the \$2,209 shown above as the annual loan payment, for a reduction of \$219 to the surcharge. To calculate the DSC, add net income, depreciation and income taxes and divide the result by the sum of the principal and interest payments. The calculation of the DSC is shown on the attached Schedule GWB-1.

Instruction for Step 2

Step 2. Find the equivalent bills.

Ordinarily, Staff would multiply the AWWA⁹ meter capacity multipliers by the number of current customers and by the number of months per year. However, in the instant case, the existing rates¹⁰ do not mirror the standard meter multipliers, and Staff recommends that the

⁹ American Water Works Association

¹⁰ Approved in Decision No. 68233

surcharges mirror the proportionate relationships among the existing monthly minimum charges. The sum of the products in Column E equals the total equivalent bills.

Result

Col A	Col B	Col C	Col D	Col E
Meter Size	Meter Capacity Multiplier	Number of Customers	Number of Months In Year	Equivalent Bills Col B x C x D
3/4" Meter (see Note)	1	48	12	576
1" Meter	1.6	11	12	211
1½" Meter	3	0	12	0
2" Meter	5	0	12	0
			Total	787

Note: In this case, Staff adjusted the capacity multiplier for the 3/4" meter to be equal to 1 (rather than 1.5, per AWWA) because Mirabell does not have 5/8"x 3/4" meter customers. Therefore, the 3/4" inch meter serves as the base customer class and is, therefore, the starting point for the remaining multipliers.

Instruction for Step 3

Step 3. Find the monthly surcharge for 3/4" customers.

Divide the result obtained in step 1 by the number of equivalent bills calculated in step 2 to obtain the monthly surcharge for 3/4" customers.

Result

\$ 1,990	Total annual surcharge amount (Step 1)
÷ 787	Number of equivalent bills (Step 2)
\$ 2.53	Total monthly surcharge for 3/4" customers

Instruction for Step 4

Step 4. Find the monthly surcharge for remaining meter size customers.

Multiply the Result obtained in step 3 by the existing meter capacity multipliers, as approved in Decision No. 68233, to obtain the monthly surcharges for all other meter sizes.

Col A	Col B	Col C	Col D
Meter Size	Meter Capacity Multiplier	5/8" x 3/4" Customers' Surcharge	Surcharge by Meter Size Col B x C
3/4" Meter	1	\$2.53	\$ 2.60
1" Meter	1.6	\$2.53	\$ 4.05
1½" Meter	3	\$2.53	\$ 7.59
2" Meter	5	\$2.53	\$ 12.65

Table A
Conversion Table Factor (Based on a 5-year Loan)

Annual Interest	Payment Factor
1.50%	\$0.20772
2.00%	\$0.21033
2.50%	\$0.21297
3.00%	\$0.21562
3.50%	\$0.21830
4.00%	\$0.22100
4.50%	\$0.22372
5.00%	\$0.22645
5.50%	\$0.22921
6.00%	\$0.23199
6.50%	\$0.23479
7.00%	\$0.23761

STAFF'S RECOMMENDATIONS

Staff recommends:

1. That the Commission authorize the Company to obtain a five-year amortizing loan in an amount not to exceed \$10,243 and at an interest rate not to exceed the prevailing WIFA rate at the time the loan is executed (currently estimated at 2.25 percent, less the Company's 20 percent WIFA subsidy) to finance capital improvements discussed herein.
2. Approval of a surcharge mechanism that may result in a surcharge of \$2.53 per month for customers with a ¾-inch meter.

3. The actual amount of the WIFA loan surcharge be calculated based upon the actual amount of the WIFA loan and actual number of customers at the time of the loan closing, subject to adjustment needed to result in a DSC ratio of 1.25.
4. The surcharge be implemented only after the Company closes on the loan.
5. Approval of Mirabell's request for authorization to incur long-term debt with the understanding that the Commission will also consider a WIFA loan surcharge mechanism to enable the Company to meet its principal and interest obligation on the proposed WIFA loan.
6. The Company file with the Commission a WIFA loan surcharge tariff application that would enable the Company to meet its principal and interest obligations on the proposed WIFA loan.
7. The Company follow the same methodology presented herein in the financing section of this report, to calculate the additional revenue needed to comply with the terms of the WIFA loan using actual loan amounts, and use the result to develop its surcharge tariff application. The increase in revenue calculation should be included in the surcharge tariff application.
8. The Company make a WIFA loan surcharge filing within 60 days of the loan closing.
9. Approval of the loan and surcharge be rescinded if the Company has not drawn funds from the loan within one year of the date of the Decision resulting from this proceeding.
10. The Company file a full permanent rate case no later than April 30, 2011, using a calendar year 2010 test year. In the event that the Company fails to file a permanent rate case by April 30, 2011, then any emergency surcharge approved in this proceeding shall terminate immediately.
11. The Company file, with the Corporations Division of the Commission, its annual reports for 2009 and 2010¹¹ within 60 days of this decision. In the event that the Company fails to file these reports within 60 days of a decision in this matter, then any emergency surcharge approved in this proceeding shall terminate immediately.
12. The Company obtain its "Certificate of Good Standing" from the Corporations Division and docket it with Docket Control within 90 days of a decision in this

¹¹ The Corporations Division requires its reports at the beginning of the calendar year to which they are associated.

matter. If the Company fails to comply, then any emergency surcharge approved in this proceeding shall terminate immediately.

13. The Company file, with the Utilities Division of the Commission, its annual report for 2008. In the event that the Company fails to file this report within 60 days of a decision in this matter, then any emergency surcharge approved in this proceeding shall terminate immediately.
14. That the Company be subjected to a fine of \$5,000 in the event that it fails to comply with any requirements resulting from this proceeding. In addition, if the Company fails to comply with any requirements, Staff shall be authorized to appoint an interim manager to operate this Company and the Company shall be ordered to cooperate with the interim manager.
15. The interim rates be subject to refund pending the decision resulting from the permanent rate increase case required to be filed in this proceeding.
16. The Company be required to post a bond or irrevocable sight draft letter of credit in the amount of \$1,990¹² to ensure that there is sufficient money available to refund customers if the Commission determines in the permanent rate case that the emergency surcharge was inappropriate. However, should the Commission choose a minimal bond, Staff recommends an additional option of posting a cashiers check for \$10.00 with the Commission. This option is recommended as small companies may be unable to obtain a bond or sight draft letter of credit for small amounts.
17. The Company file with Docket Control, within 30 days of the decision, a revised rate schedule reflecting the emergency rate increase, as a compliance item in this docket.
18. The Company notify its customers of the revised rate, and its effective date, in a form acceptable to Staff, by means of an insertion in the Company's next regularly-scheduled billing.

¹² Equal to one year of Staff recommended surcharge.

	[A] Company as Filed	[B] Staff as Adjusted	[C] Company Proposed Revenues	[D] Staff Recommend Revenues
Operating Revenue:	\$36,251	\$36,251	\$38,627	\$38,241
Operating Expenses:				
Purchased Water/Pumping Power	\$10,697	\$10,697	\$10,697	\$10,697
Admin. & General	15,379	15,379	\$15,379	\$15,379
Maintenance & Testing	7,024	7,024	\$7,024	\$7,024
Depreciation (d)	1,532	1,532	\$1,532	\$1,532
Property Taxes	0	0	\$0	\$0
Other taxes	45	45	45	45
Total Operating Expense	<u>\$34,677</u>	<u>\$34,677</u>	<u>\$34,677</u>	<u>\$34,677</u>
Pre-Tax Operating Income	\$1,574	\$1,574	\$3,950	\$3,564
Interest Income	\$0	\$0	\$0	\$0
Interest Expense (a)	<u>82</u>	<u>97</u>	<u>378</u>	<u>378</u>
Pre-Tax Net Income (b)	<u><u>\$1,492</u></u>	<u><u>\$1,477</u></u>	<u><u>\$3,572</u></u>	<u><u>\$3,186</u></u>
Principal Repayn (c)	\$2,037	1,761	3,689	3,689
Reserve/Replacement Deposit (e)	\$0.00	0	0	0
TIER (Interest Coverage)				
[(a) + (b)] ÷ (a)	N/M	19.20	16.23	10.45
DSC				
[(a) + (b) + (d)] ÷ [(a) + (c)]	N/M	1.47	1.67	1.35

[A] Activity as report by the Company on its 2009 Tax Return
[B] As adjusted by Staff based on information from WIFA re: the existing loan
[C] Company proposed revenues and Staff adjusted amounts from Col [B]
[D] Staff recommended amounts

MEMORANDUM

DATE September 1, 2010

TO: Gerald Becker
Public Utility Analyst V

FROM: Dorothy Hains, P. E. 
Utilities Engineer

RE: **Mirabell Water Company, Inc.**
Financing Application (Docket No. W-02368A-10-0280)
Emergency Rate Increase Application for (Docket No. W-02368A-10-0286)

INTRODUCTION

Mirabell Water Company ("Company" or "Mirabell") is located southwest of the City of Tucson ("City") in Pima County. The Company serves approximately a 0.375 square mile area in Section 24 of Township 16 South and Range 10 East. The Company was serving approximately 55 customers as of year end 2009.

On July 9, 2010, the Company filed a Financing Application with the Arizona Corporation Commission ("ACC" or "Commission") seeking authorization to borrow \$11,000 to fund completion of well pump repairs completed in the prior month.

On July 13, 2010, the Company filed with the ACC a request to implement an Emergency Surcharge. The Company indicated that its request for an emergency surcharge was necessary because the Company well pump had failed in early June and the Company needed the revenue from the surcharge to pay for its pending loan, this loan would be used to reimburse the pump repair company for the repairs it made on the failed well pump on June 28, 2010¹. During the month of June the Company had been serving its customers water supplied by the City through an existing interconnection Mirabell has with the City water system.

SYSTEM ANALYSIS

According to data contained in the Company's 2007 Annual Report filed with the Commission, the Company water system consists of one well with a production rate of 50 gallons per minute ("GPM"), two storage tanks with a total storage capacity of 35,000 gallons, a booster pump station and distribution system. The Company has an Emergency Service Agreement ("Agreement") with the City that was entered into in December 2008. Per the Agreement during

¹ The Wise Pump & Tank Service invoice was dated June 28, 2010, Wise contracted with Mirabell to do the well pump repairs.

an emergency situation, the City will provide water to the Company at a maximum rate of 25 GPM.

Commission Utilities Division Staff ("Staff") concludes that the Company has adequate production and storage capacity² to serve its existing customers and reasonable growth. The data also suggested that there was 4.4% water loss in the system which is below Staff's recommended allowable water loss limit of 10%.

ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY ("ADEQ") COMPLIANCE

Staff received an ADEQ Drinking Water Compliance Status Report dated July 29, 2010, in which ADEQ reported that the Mirabell water system, Public Water System No. 10-178, is in compliance with ADEQ requirements and is currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.

ARIZONA DEPARTMENT OF WATER RESOURCES ("ADWR") COMPLIANCE

The Company is located in the ADWR Tucson Active Management Area. Staff received a Water Provider Compliance Status Report dated July 14, 2010, in which ADWR reported that Mirabell was currently in compliance with departmental requirements governing water providers and/or community water systems.

ACC COMPLIANCE

A check of the Company's compliance status indicates that it is out of compliance for failure to file its 2008 Annual Report with the Utilities Division of the Commission. Further, the Company is not in good standing with the Corporations Division of the Commission and has been administratively dissolved on June 19, 2009 for failure to file its 2009 Annual Report with the Corporations Division. The Company has also failed to file its 2010 annual report with the Corporations Division.

COSTS

The Company replaced its 15-HP well pump motor with a 20-HP well pump motor³ in June 2010 when the well pump failed. A general description and breakdown of the cost of the repairs is listed below.

² Per water usage data were obtained from the Company in response to a Staff's data request (response dated August 4, 2010).

³ Wise Pump & Tank Service informed Staff that the decision was made to install the larger pump motor in favor of a longer expected service life (10years vs. 3 to 4 years had the smaller pump been installed).

Item Description	Unit	Amount (\$)
Goulds pump (Mod #45J15)		
20-HP 460v, 3Ø, 6" motor	1	5,775.00
Heat shrink splice kit	1	18.50
2" Simmons Inline check valves (@ \$92/unit)	3	276.00
2" & 6" Galvanized Nip	1	4.80
2" Galvanized treaded & coupled pipe (@ \$5.32/ft)	126	670.32
8"x2" sanitary well seal	1	98.40
¾" Electric Tape (@ \$4/ft)	2	8.00
1" 10-mil pipe wrap tape (@\$5.40/unit)	15	81.00
Air Freght on pump & motor		290.00
Labor (3-hrs on 6/22/10 @ \$75/hr)	2	225.00
Labor (13-hrs on 6/25/10 @ \$100/hr)	2	1,300.00
Labor (8.5 hrs on 6/26/10 @ \$120/hr)	3	1,020.00
Subtotal		9,767.02
Tax		476.14
Total		10,243.16

Staff concludes that the costs associated with the well pump repairs listed above are reasonable. However, no "used and useful" determination of the proposed plant was made, and no conclusions should be inferred for rate making or rate base purposes.

SUMMARY

Conclusions

- Staff concludes that the Company has adequate production and storage capacity to serve its existing customers and reasonable growth. The data also suggested that there was 4.4% water loss in the system which is below Staff's recommended allowable water loss limit of 10%.
- ADEQ reported that the Mirabell water system is in compliance with ADEQ requirements and is currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.
- The Company is out of compliance for failure to file its 2008 Annual Report with the Utilities Division of the Commission. Further, the Company is not in good standing with the Corporations Division of the Commission and has been administratively dissolved on June 19, 2009 for failure to file its 2009 Annual Report with the Corporations Division. The Company has also failed to file its 2010 annual report with the Corporations Division.
- ADWR reported that Mirabell was currently in compliance with departmental requirements governing water providers and/or community water systems.

Mirabell Water Co.

Docket # W-02368A-10-0286 (Emergency Rate)

Docket # W-02368A-10-0280 (Financing)

Page 4

5. Staff concludes that the costs associated with the well pump repairs listed above are reasonable.

MEMORANDUM UPDATE

TO: Gerald Becker
Public Utilities Analyst V
Utilities Division

FROM: Trish Meeter 
Public Utilities Consumer Analyst
Utilities Division

DATE: **September 1, 2010**

RE: **Mirabell Water Company**
Docket No. W-02368A-10-0280
Docket No. W-02368A-10-0286

An application from Mirabell Water Company ("Company") for approval of a Financing Application was filed with the Arizona Corporation Commission on July 9, 2010.

An application from the Company for approval of an Emergency Rate Increase was filed on July 13, 2010.

The Corporations Division reports on September 1, 2010 that the Company is NOT in good standing and has been administratively dissolved for failure to file a 2009 Annual Report with Corporations Division. Per Corporations Division a 2010 Annual Report has not been filed.

A search of the Consumer Services database from January 1, 2007 through current reveals the following:

2007 – 3 Complaints, 2 quality of service (outage), 1 service (restrictions)

2008 – 3 Complaints, 1 quality of service (outage), 1 service (restrictions),
1 billing

2009 – 1 Complaint, quality of service (outage)

2010 – 3 Complaints, 1 quality of service (outage), 1 service (not
working), 1 billing

One 2010 complaint remains open pending investigation.

Per staff discussion on August 4, 2010 the following information is being provided:

No water outages were reported by the Company between June 28, 2010 and July 4, 2010.

If I can be of further assistance, please contact me at 2-0622.